

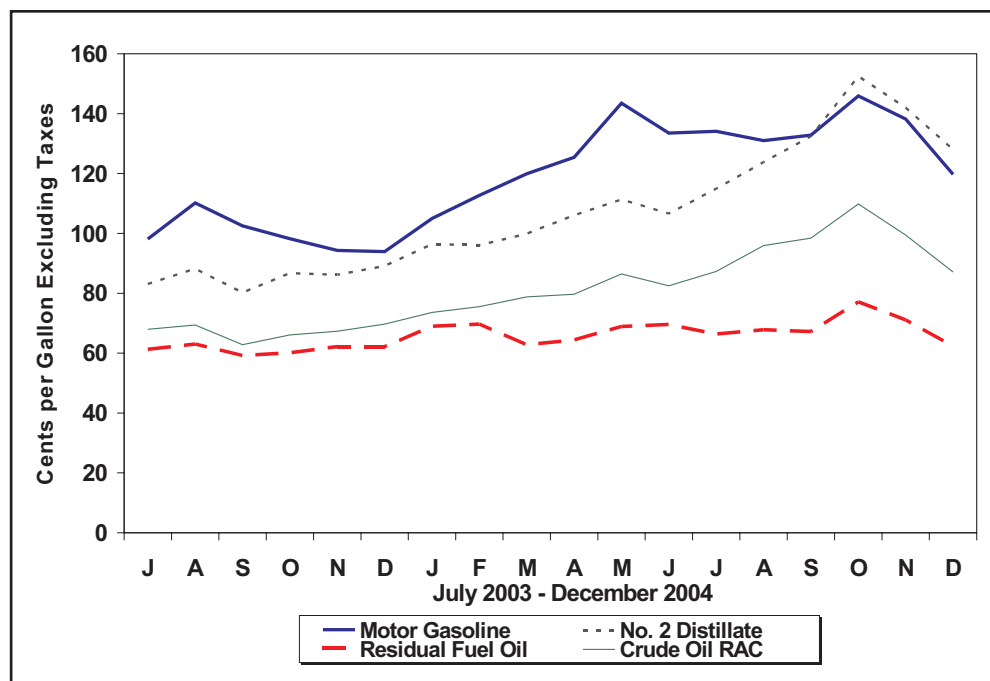
Highlights

While volatile, prices for many benchmark crude oil streams registered overall decreases in December. Early in the month, reports that inventories in key consuming markets were rising caused prices to decline significantly from late-November levels. Expectations that Organization of Petroleum Exporting Countries (OPEC) would continue to produce oil at high levels, despite the group's decision on December 10 to reduce official production levels by 1 million barrels per day at the beginning of January, along with subsiding worries about the adequacy of heating oil stocks in the United States for the 2004-2005 winter season, aided the fall in prices. Further, a resumption of Iraqi crude oil exports helped to draw prices down and offset the impact of the OPEC vote to cut production. Nevertheless, falling prices were moderated throughout the month by production problems in several oil producing regions around the world. Shutdowns in the North Sea, more disruptions to Iraqi oil production and transport facilities, civil unrest curtailing Nigerian exports, and delays in the full resumption of production operations in the Gulf of Mexico influenced price trends across international markets. At mid-month, reports showing a decline in U.S. crude oil and distillate stocks sent prices higher. Rising prices were underpinned a few days later by a taped message, purported to be from Osama Bin Laden, urging attacks on Iraqi and Gulf oil facilities. While prices eased shortly after that on reports of rising stocks and slower demand, they rose again during the final days of December in reaction to news of two car bomb attacks in Riyadh, Saudi Arabia. In the larger view of the global oil market, the year ended with the perception that the tight balance between supply and demand seen throughout 2004 would most likely continue in

2005, with the possibility of volatile prices should any event significantly strain that equation.

Prices for crude oil and refined products in the United States were unsettled during the final month of 2004 in reaction to variety of fundamental and technical market factors, and some political events. Particularly at the start of the month, prices were affected by year-end book squaring by refiners looking to reduce product holdings. Additionally, shrinking refining margins helped dampen demand for crude oil. While all product prices were in decline at the beginning of December, gasoline prices saw the largest decreases, mainly in response to comfortable inventory levels. Data show December gasoline stocks at the U.S. level increased from November rates and also rose above the five-year average range for this time of year. Gasoline prices gained some ground during the middle of the month when they were pulled higher by increases in other

Figure HL1. Crude Oil and Petroleum Product Wholesale Prices



Sources: Energy Information Administration. Crude oil refiner acquisition cost: Form EIA-14, "Refiners' Monthly Cost Report"; petroleum product prices: Form EIA-782A, "Refiners'/Gas Plant Operators' Monthly Petroleum Product Sales Report."

Table HL1. U.S. Refiner Prices and Volumes of Petroleum Products

(Prices: Cents per Gallon Excluding Taxes, Volumes: Million Gallons per Day)

Products	Sales to End Users						Sales for Resale					
	December 2004		November 2004		December 2003		December 2004		November 2004		December 2003	
	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume
Motor Gasoline	141.5	59.1	155.3	57.9	106.5	63.4	119.7	336.5	138.2	310.9	93.9	311.1
Conventional	136.0	33.2	148.8	32.7	102.0	34.5	115.6	223.0	133.8	203.2	90.6	207.8
Regular	133.3	27.1	146.3	26.9	99.2	26.9	114.4	192.5	132.5	175.1	89.1	173.6
Midgrade	143.5	3.4	156.0	3.3	108.3	4.1	120.3	11.2	138.6	10.6	95.9	10.9
Premium	153.7	2.7	165.9	2.5	116.2	3.4	125.0	19.3	143.9	17.5	99.4	23.3
Oxygenated	141.1	3.7	154.0	3.4	109.2	3.9	123.9	12.6	142.1	12.0	97.5	12.1
Regular	138.0	2.8	151.3	2.7	106.2	3.0	122.4	10.2	140.6	9.8	96.0	9.5
Midgrade	148.1	0.5	159.9	0.5	114.7	0.6	123.4	1.2	142.4	1.1	98.9	1.4
Premium	157.8	0.3	170.6	0.3	124.4	0.4	137.5	1.2	155.3	1.1	107.2	1.2
Reformulated	149.9	22.2	165.2	21.8	112.2	25.0	128.2	100.8	147.1	95.7	100.9	91.1
Regular	145.5	16.3	161.3	16.2	107.8	17.9	125.4	80.9	144.5	77.1	98.2	70.0
Midgrade	156.7	2.8	172.3	2.7	119.1	3.2	136.6	5.0	154.7	4.9	106.3	5.8
Premium	166.7	3.1	180.8	2.9	127.4	3.9	140.7	14.9	159.4	13.8	111.5	15.3
Aviation Gasoline	W	W	W	W	146.6	0.1	157.3	0.4	168.6	0.4	124.4	0.4
Kerosene-Type Jet Fuel	133.4	46.3	146.5	46.4	92.9	44.1	132.5	13.4	145.3	13.8	90.7	12.2
Propane (Consumer Grade)	94.5	2.8	103.5	1.9	61.3	3.1	83.4	54.3	88.3	47.4	64.8	50.7
Kerosene	145.2	0.5	154.3	0.3	NA	NA	138.1	3.7	147.9	2.9	97.0	3.5
No. 1 Distillate	144.7	0.3	161.9	0.2	103.3	0.4	138.0	3.3	154.7	2.0	100.9	2.6
No. 2 Distillate	134.2	19.7	148.7	19.5	93.9	18.1	128.0	149.0	142.0	141.0	89.1	131.6
No. 2 Fuel Oil	132.1	2.5	142.4	2.6	94.5	2.8	129.8	31.1	139.3	19.6	88.6	24.0
No. 2 Diesel Fuel	134.5	17.2	149.7	16.9	93.8	15.3	127.5	117.9	142.4	121.4	89.2	107.6
Low Sulfur	137.9	11.1	152.4	11.7	96.3	10.3	127.8	98.4	143.1	103.6	89.8	88.0
High Sulfur	128.4	6.1	143.7	5.2	88.7	5.0	126.2	19.5	138.5	17.8	86.9	19.6
No. 4 Fuel^a	W	W	W	W	84.5	0.5	W	W	W	W	W	W
Residual Fuel Oil	75.4	12.7	82.2	11.3	66.8	10.8	62.3	7.2	71.1	6.4	62.3	9.8
Sulfur Content not > 1 %	85.0	6.1	93.8	4.2	79.3	3.5	75.9	2.7	86.7	2.8	66.7	6.2
Sulfur Content > 1 %	66.6	6.6	75.2	7.1	60.7	7.3	54.2	4.5	59.1	3.6	54.5	3.6

NA = Not available.

W = Withheld to avoid disclosure of individual company data.

^a Includes No. 4 fuel oil and No. 4 diesel fuel.

Notes: Motor gasoline averages and totals prior to October 1993 include leaded gasoline.

Notes: Values shown for the current month are preliminary. Values shown for previous months are revised. Data are final upon publication in the *Petroleum Marketing Annual*.

Source: Energy Information Administration Form EIA-782A, "Refiners'/Gas Plant Operators' Monthly Petroleum Product Sales Report."

products' prices and the expectation of higher demand from holiday travel. Following a post-Christmas drop, gasoline prices were on the rise again in response to an increase in all petroleum products' prices and to refiner purchases. Distillate prices, particularly heating oil prices, remained in the high end range of the complex. Although they fell at the beginning of the month due to climbing stocks and warm temperatures, prices jumped at mid-month on a reported drawdown in inventories at about the same time as a snap of cold weather. Inventory data also showed that U.S. distillate stocks remained at the low end of the five-year average range. Data for the month of December as a whole show that although total distillate stocks rose 2.6 percent from November's level, they were 7.8 percent below the rate seen at this time last year. While prices retreated in the latter half of the month due to warmer

temperatures, higher production, and rising stock levels, they remained well above prices seen at the end of 2003. At New York Harbor, the monthly average price for No. 2 fuel oil was 89.1 cents per gallon in December 2003, but in December 2004 the price was \$1.275 per gallon, a difference of 38.4 cents per gallon. While less profound than the spread seen in No. 2 heating oil prices, there was a significant year-to-year difference in the monthly average price for regular gasoline at New York Harbor. Last year at this time, the average price was 88.5 cents per gallon, while it was \$1.068 per gallon in December 2004, marking a change of 18.3 cents per gallon. Finally, the monthly average spot market price for West Texas Intermediate (WTI) crude oil at Cushing, Oklahoma, also shows a substantial change from last year's level: \$32.13 per barrel in December 2003, versus \$43.24 per barrel in December 2004, a difference of \$11.11 per barrel.

Additional December market and sales activity for crude oil and the principal petroleum products are summarized in the following sections.

Crude Oil

Registering an overall decline for the month, the daily spot price for WTI crude oil at Cushing, Oklahoma, was unsettled during December. After opening at its highest point for the month, \$49.16 per barrel, the price entered a period of decline as demand slackened and concern about supply levels began to dissipate. Following the low of \$40.71 per barrel on December 10, the price began to increase sharply, first on supply reports showing a decrease in stocks, then on reports of Bin Laden's threats. While the price generally eased during the latter half of the month, it rose again during the final days of December when car bomb attacks took place in Riyadh, Saudi Arabia. The price closed the month at \$43.36 per barrel.

- December monthly average crude oil prices fell appreciably from November levels in all categories. The average domestic crude oil first purchase price declined \$4.71 (11.0 percent) to \$38.10 per barrel.
- The average free-on-board (f.o.b.) cost of imported crude oil fell \$5.44 (15.1 percent), to \$30.49 per barrel. The average landed cost of foreign crude oil declined \$4.90 (12.6 percent), to \$34.06 per barrel.
- The average refiner acquisition cost for domestic crude oil decreased \$4.48 (10.0 percent), to \$40.31 per barrel. The average cost of imported crude oil to U.S. refiners declined \$5.57 (14.0 percent), to \$34.32 per barrel, while the composite refiner acquisition cost for crude oil fell \$5.19 (12.4 percent), to \$36.57 per barrel.

Petroleum Products

Motor Gasoline

While reflecting the overall unsettled atmosphere seen in the complex during December, the daily spot price for regular gasoline at New York Harbor was the least volatile. Opening at \$1.254 per gallon, the price followed the lead set by crude oil prices, decreasing

briskly during the first ten days of the month. Following a rise at mid-month, the price retreated again, falling to its low of 98.8 cents per gallon on December 27. Although it climbed during the final days of December, and closed at \$1.098 per gallon, the price was more than 15 cents lower than where it began the month.

- Monthly average gasoline prices registered significant decreases in all sales categories during December. The average price for retail sales of motor gasoline by refiners dropped 13.8 cents to \$1.415 per gallon, while the average wholesale price declined 18.5 cents to \$1.197 per gallon. Including data reported by a sample of motor gasoline marketers, the national average price at company-operated retail outlets fell 13.9 cents to \$1.397 per gallon. The average wholesale price for gasoline decreased 18.2 cents to \$1.200 per gallon. The average dealer tank wagon (DTW) price declined 16.3 cents to \$1.304 per gallon, while the average rack price plunged 19.0 cents to \$1.166 per gallon. The average bulk sale price fell 16.3 cents to \$1.134 per gallon. Reformulated gasoline prices were 11.9 cents higher than conventional gasoline prices at retail, and 10.6 cents more at wholesale. Oxygenated gasoline prices were 4.6 cents higher than conventional gasoline prices at retail, and 7.4 cents more at wholesale.
- Sales of motor gasoline by refiners rose in December. Total sales increased 26.8 million gallons per day (7.3 percent) to an average of 395.6 million gallons per day. Retail sales rose 1.2 million gallons per day (2.1 percent), while wholesales climbed 25.6 million gallons per day (8.2 percent). Rack sales made up 67.6 percent of wholesales, while DTW and bulk sales accounted for 16.0 percent and 16.3 percent, respectively. Reformulated gasoline accounted for 31.1 percent of total motor gasoline sales, while oxygenated gasoline explained 4.1 percent of sales.

No. 2 Distillate

Due to both ongoing uneasiness about supply levels for the coming winter season and a temperamental market, the daily spot price for No. 2 heating oil at New York Harbor ranged significantly during December. Opening at \$1.382 per gallon, the price dropped during the first week of the month as inventory data showed some growth in stock levels. By December 10, the price reached the month's low of \$1.189 per gallon. During the following days, the price rose sharply on fundamental factors and political issues, reaching its high of \$1.414 per gallon on December 17. It declined apprecia-

bly during the second half of December as a result of rising inventories and warm winter temperatures. The price closed December at \$1.229 per gallon, more than 15 cents lower than its opening level for the month.

- December monthly average prices for No. 2 distillates declined from November levels. The national average residential sales price dropped 3.3 cents to \$1.793 per gallon. The average wholesale price fell 13.4 cents to \$1.293 per gallon. The average price for No. 2 diesel fuel at company-operated retail outlets decreased 12.0 cents, while the average No. 2 diesel fuel wholesale price declined 14.7 cents. The difference between low- and high-sulfur diesel fuel prices was 7.8 cents at retail and 2.0 cents at wholesale.
- Overall, refiner sales of No. 2 distillates increased in December. Total sales climbed 8.2 million gallons per day (5.1 percent), to 168.7 million gallons per day. Sales of No. 2 fuel oil jumped 11.4 million gallons per day (51.4 percent), while sales of No. 2 diesel fuel decreased 3.2 million gallons per day (2.3 percent). Low-sulfur diesel fuel accounted for 81.1 percent of all refiner diesel fuel sales, and 64.9 percent of all refiner No. 2 distillate sales.

Residual Fuel Oil

- December national average residual fuel oil prices followed the general downward trend in prices seen in the market. Refiner prices for low-sulfur residual fuel oil dropped 8.8 cents per gallon to 85.0 cents per gallon at retail, and 10.8 cents to 75.9 cents per gallon at wholesale. The average refiner retail price for high-sulfur residual fuel oil fell 8.6 cents to 66.6 cents per gallon, while the wholesale price decreased 4.9 cents, to 54.2 cents per gallon. Including data re-

ported by a sample of residual fuel oil marketers, average prices for low-sulfur residual fuel oil declined 2.6 cents to 85.4 cents per gallon at retail, and 9.6 cents to 74.3 cents per gallon at wholesale. The retail price for high-sulfur residual fuel oil fell 8.5 cents to 66.8 cents per gallon, while the wholesale price decreased 5.8 cents to 58.6 cents per gallon.

- Refiner sales of residual fuel oil rose again in December. Total sales increased 2.2 million gallons per day (12.4 percent). Low-sulfur residual fuel oil sales rose 1.8 million gallons per day (25.7 percent), while high-sulfur residual fuel oil sales increased 400,000 gallons per day (3.7 percent).

Other Products

- Monthly average prices for most of the remaining surveyed products decreased in December. Refiner prices for propane declined 9.0 cents per gallon at retail, and 4.9 cents per gallon at wholesale. Including data from a sample of propane marketers, the average residential propane price rose 1.4 cents per gallon. The average retail propane price increased 4.1 cents per gallon, while the average wholesale propane price declined 5.4 cents per gallon. Prices for kerosene, kerosene-type jet fuel, and No. 1 distillate decreased in both the retail and wholesale categories. The December price for aviation gasoline also fell at the wholesale level.
- Trends for refiner sales of the products included in this section were varied in December. Sales of propane, No. 1 distillate, and kerosene rose at both retail and wholesale, while sales of kerosene-type jet fuel fell in both categories. Sales of aviation gasoline also declined at wholesale.